

Appendix B

QPI for Administrative Efficiency

The quantifiable performance indicator ("QPI") to address administrative efficiency is intended to encourage the program administrator to continually assess its operations to continue to deliver services at the maximum value to Vermont's ratepayers. The Department of Public Service ("Department") and Vermont Energy Investment Corporation ("VEIC") propose the following two metrics for measuring, evaluating and monitoring the change in the administrative efficiency of Efficiency Vermont ("EVT").

I. Management Span of Control

The intent of this QPI is to encourage VEIC to continually assess and evaluate departmental and individual performance by promoting improvement in its management-to-staff ratio.

The Department and VEIC propose that by the end of 2014, the management-to-staff ratio for EVT will be a minimum of 8.5 non-supervisory employees for every one supervisory employee. For the purposes of this metric, a manager is only counted as a supervisor if he/she supervises one or more EVT employees. All VEIC employees that are not included in the EVT organizational chart but who perform services billed to the Electric Energy Efficiency ("EEU") Fund will be considered non-supervisory employees reporting to the EVT Executive Director. Their EVT billable hours will be used to determine their portion of an EVT full-time equivalent.

The following formula will be used to determine management-to-staff ratios:

$$\text{Management-to-staff ratio} = [N+(S-1)]/S$$

where:

N=Number of non-supervisory employees

S=Combined number of supervisors and managers

"S minus 1" excludes Director of EVT from being considered a supervised employee.

The management span of control minimum target is based upon the current ratio of 7.8. Providing a minimum management span of control allows VEIC to increase the EVT management span of control according to current restructuring plans, while allowing for some strategic flexibility. The proposed target value for this metric is a ratio of 8.5 to 1 or greater.

The span of control ratio value will be measured and reported quarterly. At the end of each calendar year, an average will be taken of the quarterly measurements to develop an annual average. At the end of the three-year performance period, the three annual averages will be averaged to determine the performance period annual average ratio used to determine compliance with the performance standard. If VEIC fails to achieve a full performance period ratio within the specified bound, VEIC will forfeit the opportunity to earn 2 percent of the 100% target level performance award or \$48,600.

Because management of subcontractor relationships and the utilization of external resources can have a bearing on the overall administrative efficiency of EVT, VEIC will summarize and report at least quarterly its total EVT payroll and subcontractor expenditures.

II. Key Business Process Improvements

As the concept of administrative efficiency as a QPI for EVT is new, VEIC and the Department propose that milestone indicators are appropriate for the 2012-2014 performance period, with the goal of setting further quantifiable performance metrics for the 2015-2017 performance period.

These milestone indicators are being developed to encourage VEIC to clearly identify, document, and measure key business processes associated with EVT's delivery of services under the Order of Appointment. Following the completion of these milestones, VEIC and the Department should be potentially able to develop year 2015-2017 QPIs aimed at improving the administrative efficiency of EVT's operations. Metrics for internal improvement that are not highlighted as QPIs may be set as well.

The agreed-upon milestone indicators are:

- By August 30, 2012, VEIC will have identified, analyzed and measured not less than two key business processes that it determines are likely to be two of the most important processes in their business. This milestone will be completed when an efficiency measurement baseline has been established for each process along with a target level of improvement for the next annual reporting period for each process.¹
- VEIC will, by the end of 2013, have identified, analyzed, and measured key business processes that account for a significantly relevant portion of EVT activity as measured in terms of EVT and VEIC "Efficiency Vermont" billed staff hours.² This milestone will be completed when an efficiency measurement baseline has been established for each process along with a target level of improvement for the next full annual reporting period for each process.
- Any remaining significant business processes that are not identified in step #2 above will be reviewed by the Department and VEIC and, where appropriate, these additional key business processes will be analyzed by VEIC by the end of 2014.

Integral to this proposal is the Department's hiring of an independent third party consultant, funded by EEU evaluation funds held by the EEU Fiscal Agent, to assist the parties in this

¹The target level of improvement for the next annual reporting period is not itself a QPI. The QPI milestone is to establish the target. The target, to be set by VEIC, shall simply be an improvement from baseline. The annual reporting period shall be the next full calendar year. The level of improvement shown (or not) is not the subject of the QPI for the 2012-2014 performance cycle, rather the target and reporting of level of improvement is intended to ensure that VEIC is working to continually improve operations.

²That is, activities that have a significant portion of hours expended on the delivery of Efficiency Vermont.

process.³ Following identification, documentation, and measurement of initial key business processes by VEIC (August 30, 2012, deadline), an independent third party will assess VEIC's key business process analysis and will recommend opportunities for improvements in the methods by which VEIC identifies key business processes, structure for mapping such processes, and other methodological improvements to ensure parties arrive at meaningful efficiency measurements.

The milestone schedule for this QPI will be as follows:

#	Milestone	Due Date
1	VEIC identifies, documents current state of key processes, and sets up systems to measure at least two key business processes to be analyzed and managed by VEIC. Establish baseline metrics for improvement at this time as appropriate by setting targets for the proceeding reporting period for each of the business process.	August 30, 2012
2	Department consultants review methodology for developing, maintaining and updating/changes to key business practices and recommend improvements.	October 31, 2012
3	VEIC identifies, documents current state of key processes, and sets up systems to measure a significantly relevant portion of key business processes to be analyzed and managed by VEIC. VEIC establishes baseline metrics for improvement at this time as appropriate by setting target levels of improvement for each business process.	December 31, 2013
4	Department consultants review all identified business processes and those activities that are not identified as part of a key business process in order to: (1) recommend areas for improvement; and (2) benchmark performance with comparable companies.	July 1, 2014
5	Department and VEIC to develop and propose new updated QPIs for administrative efficiency based on the above processes for implementation in the 2015-17 performance period. The Department and VEIC will use the independent consultants recommendations in an effort to develop specific QPIs based on the identified key business processes, consultant recommendations, and experience over the 2012-2014 performance period in meeting these milestones. The Department and VEIC will also consider at this time potential QPIs for administrative efficiency for areas not considered "key business processes."	September 30, 2014 or based on 2013 DRP schedule

³The Department's approved 2012-2014 evaluation plan and budget included this evaluation activity.

The Department and VEIC will file status updates within two weeks of the respective EEU milestone completion dates. Status updates will indicate if milestones were achieved on time and report relevant results. If milestones were not reached, status updates will indicate the reason(s) why and propose next steps including adjustments to future milestone dates if needed.

If at the end of the performance period, VEIC has failed to meet either of Milestones #1 or #3, VEIC forfeits the opportunity to earn 2 percent of the 100% target performance award or \$48,600. If the Department, in its obligations related to this performance indicator, has delays in contractor reports that significantly affect VEIC's ability to meet one of the above deadlines, VEIC will not have been considered to miss a milestone; rather the date for completion shall be adjusted commensurate with the Department delay. Any irresolvable disputes shall follow the dispute resolution process identified in the "Process and Administration of an Order of Appointment."